25 CLASSIC MISTAKES INDIVIDUALS MAKE WHEN COMPLETING THEIR TAX RETURNS THAT CAN LEAD TO UNNECESSARY PENALTIES OR COSTLY TAX ENQUIRIES

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From crypto currency tax confusion to new capital gains tax rules, completing your self-assessment tax return can be taxing and prone to errors. After a dealing with 1000s of tax returns and assisting clients with tax enquiries, I have found that there are **25 very common mistakes** that people make when filling in their personal tax return in the rush for 31st January.

These mistakes, however innocent can lead to additional enquiries and even investigations by HMRC. At the very least they may mean that you pay too much or too little tax or a tax refund is delayed.

So here are the 25 most common mistakes...

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1. Not using the white space to explain unusual variations

If you know there is something unusual, explain it.

HMRC is then far less likely to start an enquiry. It is crucial that you or your accountant do this, although often it doesn't seem to happen especially if your accountant is snowed under with lots of last minute returns to prepare.

For instance, if your net profit seems too low to support someone above the poverty line, be prepared for give a plausible explanation. However there's no need to go overboard or be over generous in the information you give. Keep it straight, honest and simple.

2. Entering the same expenses in different boxes each year

In their haste to get the return filed, many taxpayers and sometimes even their accountants do misclassify the expenses on the return.

For example, a driving instructor putting their fuel cost in the cost of sales figure one year and then in motor expenses the next, will produce large variations that the computer will want further explanations for.

3. Failing to declare or forgetting to include all sources of income

In the rush for 31st January, it's easy to forget income sources, such as interest being received in the year. However, HMRC knows if you have an interest earning account or perhaps an offshore bank account. So they will be asking; "Is this where you have filtered away undeclared profits?" This will trigger an investigation.

4. Entering a “yes” tick in one of the questions 1 to 9 on page 2 of the tax return but not forwarding the supplementary pages with the tax return

This is a common mistake with manual, paper filing. If you are filing online then this will be picked up by the checks the programme carries out.

5. Using estimates and round sum figures on the return

This will fuel the taxman’s suspicion that you do not keep proper records and this will be used as a basis to ask for evidence to substantiate the amounts on the return.

If the taxman can show that balancing figures or estimates have been used or that there are no invoices for some of the expenses, then he will tend to take this as carte blanche to propose hefty additions to taxable profits, often based on nothing more than a finger in the air.

6. Not claiming eligible pension reliefs

This can happen by entering the net figure of employee personal pension premiums instead of the gross figure on the return.
This means that you are claiming insufficient relief where higher rates of tax are payable.

Whilst this may not lead to an enquiry, it’s a common mistake that could cost you money.

7. Detailing information on separate schedules or entering manuscript notes on the return i.e. “per accounts” and/or “information to follow” instead of entering actual information or figures on the form.

You might think the taxman already knows and can look it up, but that’s not the way the tax calculation programme works. You simply have to supply the info in the boxes as requires.

8. Entering the figure of capital expenditure in the wrong box on Self Employment pages instead of the Capital Allowances section

This is a common error that means you are claiming excessive relief. It happens because the tax payer doesn’t understand the tax rules on revenue and capital expenditures.

Of course, the end result will be the same if the equipment qualifies for 100% annual invest allowance but the problem is that entering it in the wrong box will produce variance year on year. And this can raise a red flag with HMRC.

9. Lack of attention to risk areas and hot spots

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- Legal and professional expenses
- Repairs and renewals
- Entertaining
- Stock
- Provisions and accruals
- Research and development
- Drawings
- Pensions
- Employment expense
- Termination payments

The taxman has been known to raise more enquiries into the above expenses than any other areas. For instance, where drawings are comparatively low, HMRC may wonder whether there have been undeclared cash sales which have been used to fund your living expenses.

Knowing the rules on the other expense categories will ensure that any questions do not lead to a full blown, and very costly investigation.

10. Failing to complete question 19 of the core return where a repayment is due

This is a common oversight where manual, paper returns are used; the taxman will assume that you wish to leave the overpaid amount on your record, to be set against future liabilities. Even where online filing is used, not providing bank details means having to wait a bit longer for the refund.

11. Not showing private use adjustments separately on the self employment pages

HMRC will always be looking to disallow any private use of items. So where you have already restricted say motor expenses for private use, you will avoid questions if you show the adjustments separately rather than netting it off so that it's clear to the taxman that adjustments have been made.

12. Forgetting To Pay The Tax

Whilst this will not lead to enquiries, it will incur a late payment penalty and some unfriendly letters or calls from HMRC. You can avoid this by simply typing in "paying HMRC self-assessment" into Google for the link on the Government Gateway website to pay or follow this link: https://www.gov.uk/pay-self-assessment-tax-bill/overview

13. Not Arranging Time To Pay

And for those who have not put any money aside, do not bury your head in the sand. Pluck up courage and call HMRC and ask for time to pay. HMRC can be understanding. Yes, there will be some interest added but this is much better than incurring more penalties.

14. Claiming For Expenses That Cannot Be Claimed

The rules on what expenses can/cannot be claimed is not as straight forward as you may think. You should proceed with care or appoint a good accountant or tax adviser. For instance, you might assume that an actor who rented accommodation in Scotland during a film shoot for his business could claim the cost of the accommodation against his income right?

Wrong.

HMRC denied the expenses and won the Court case. It was decided that the expenses did not meet the so called "wholly and exclusively for the purpose trade" test.

15. Forgetting to check and treat Class 2 NIC

There are changes to the class 2 NIC regime so do remember to check whether to include it or not on your return if you are self-employed.

16. Claiming termination payments twice

This happens where an employer has already taken the £30k termination payments into account through the payroll and given tax relief at source, but tax payers innocently claim it again on their tax returns.

This is very common and a classic mistake that has led to a number of Tribunal cases. The effect being that taxpayers are asked to pay, on average, £3,000 in carelessness tax penalties!

The author has been successful in getting one of these hefty penalties suspended for a client at the tax tribunal.

17. Forgetting About Student Loans

This is another area that gets picked up very often by HMRC and leads to a letter saying "your tax return was inaccurate…you may have to pay inaccuracy penalty…." So this is where you've taken a student loan a while ago but you're now having to make repayments through the tax return because your earnings exceed the threshold. Because the loan was taken a while ago, it's so easy to miss this on your return.

18. Forgetting About Child Benefit Clawback

This is another classic mistake, and is becoming more common among higher income earners who are receiving child benefits and who earn over £50,000. Essentially the amount of child benefit is clawed back under what is called the 'High Income Child Benefit Charge'. Because child benefit is normally dealt with under the benefits system, it's easy to forget to include it on the tax return even though the return does provide a box for this. Just like the student loan mistake above.

19. Forgetting about Foreign Income.
THIS IS HUGE

This was such a common oversight that the law was changed to make this error a criminal offence. Please proceed carefully and use a checklist to ensure nothing gets missed. You can also go through HMRC's 12 points on "who must send in a tax return" to prompt you to include any foreign income you may have.

Here's the link:

https://www.gov.uk/self-assessment-tax-returns/who-must-send-a-tax-return

Alternatively just instruct a professional.

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20. Not Claiming Eligible Reliefs

The particular relief that springs to mind is the Seed Enterprise Investment Scheme (SEIS) and Enterprise Investment Scheme (EIS). Because it takes a while for the process to complete and sometimes the company you invest in doesn't get all the paperwork back in time, this valuable relief often gets forgotten.

21. Ignoring Tax Code Notices

Nearly all tax papers are entitled to an annual tax free allowance. This is usually shown as a tax code to enable employers to deduct the right amount of tax. Sometimes the taxman will add or deduct certain items from you tax code. For example, benefits in kind, or pensions or tax underpayments. By ignoring the tax codes, you risk not adding or reflecting these items on your return leading to an incorrect tax return.

22. Failing to do a quick reasonableness check

If your final tax is a lot more or a lot less than you expected, then this is a sign that something may have been entered incorrectly. Unless you're able to put a finger on the reason why, you need to go back and double check.

23. Ignoring the new CGT rules on property sales

There is a new rule that say all gains made on the sale of properties (eg buy to let) would need to be reported within days and tax paid. In addition, the transaction would also need to be declared on your self-assessment tax return. No double tax would be paid. The mistake here is either forgetting or failing to simply disclose the details on the tax return.

24. Not declaring crypto currency activities

HMRC recently wrote to coinbase (the largest crypto currency exchange) asking them to disclose details of tax payers who have used their platform to buy bitcoins and other cryptocurrencies. Whilst we strongly suggest you seek advice on your particular case, HMRC's view is that in the vast majority of cases, gains made on bitcoins and other assets would be subject to capital gains tax.

25. Not seeking help

HMRc campaigns tell us that "tax doesn't have to be taxing..."

However, the task of completing your taxes cannot always be considered straightforward. And if you get it wrong it can lead to an unfriendly letter from HMRC.

My advice is to seek help if you're unsure.

You can certainly do it yourself and use HMRC's site or other online platforms.

And if you decide to give it a go yourself, do take extra care, use a checklist and don't leave it to the last minute.

NEED HELP?
BOOK A CALL WITH US

ABOUT THE AUTHOR

Jonathan Amponsah CTA FCCA is an award winning chartered tax adviser and accountant who has advised many clients over the last decade on tax.

He has successfully defended clients against HMRC at the tax tribunal.

Jonathan is the founder and CEO of The Tax Guys.